

MODEL TEST PAPER 3
INTERMEDIATE COURSE: GROUP - I
PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours

Maximum Marks – 100

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. MBB Ltd. has the following particulars:

Particulars	₹ (lacs)
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all its preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

- (i) The amount of Profit/Loss on Sale of Investment is:
 - (a) ₹ 1,500 lakhs Profit
 - (b) ₹ 1,000 lakhs Profit
 - (c) ₹ 2,000 lakhs Loss
 - (d) ₹ 1,000 lakhs Loss
- (ii) Securities Premium available for Buyback after redemption of Preference Shares
 - (a) ₹ 550 lakhs
 - (b) ₹ 800 lakhs
 - (c) Can't utilize securities premium for buyback
 - (d) ₹ 350 lakhs

(iii) Total amount to be transferred to Capital Redemption Reserve:

- (a) ₹ 2,000 lakhs
- (b) ₹ 4,500 lakhs
- (c) ₹ 2,500 lakhs
- (d) ₹ 1,750 lakhs

(iv) Cash balance after buyback

- (a) ₹ 1,150 lakhs
- (b) ₹ 2,200 lakhs
- (c) ₹ 3,250 lakhs
- (d) ₹ 900 lakhs

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

(i) How much revenue should be recognised by the Company as on March 31, 2024:

- (a) ₹ 2,25,000
- (b) ₹ 2,17,500
- (c) ₹ 2,00,000
- (d) ₹ 2,30,000

(ii) How much revenue should be recognised by the Company in the financial year 2024-25:

- (a) ₹ 5000
- (b) ₹ 2,20,000
- (c) ₹ 10,000
- (d) ₹ 2,40,000

(iii) What will be the accounting for trade discount:

- (a) The same will be recognised separately in the profit and loss.
- (b) The trade discounts are deducted in determining the revenue.

- (c) Trade discount will be recognised after one year, when the warranty will be over.
- (d) Trade discount will be recognised after installation is complete.
- (iv) Is the Company required to do any accounting for 1 year warranty provided by it:
 - (a) No accounting treatment is required till some warranty claim is actually received by the Company.
 - (b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.
 - (c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.
 - (d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. On April 1, 2022, X Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to X Limited for ₹ 7,00,000.
 - (i) On which date the Intangible asset should be recognised:
 - (a) April 2022 (When it was decided that SAP ERP is to be implemented)
 - (b) June 2022 (When the implementation work started)
 - (c) September 2023 (When the implementation work should have completed as per agreed terms)
 - (d) May 2024 (When the SAP actually got implemented)
 - (ii) At what amount the SAP ERP should be initially recognised as 'intangible asset':
 - (a) ₹ 25,00,000
 - (b) ₹ 26,00,000
 - (c) ₹ 23,00,000
 - (d) ₹ 32,00,000

- (iii) How should the annual maintenance and updation expenses should be accounted for:
 - (a) Should be capitalised with 'Intangible Asset'
 - (b) Should be recognised as a separate 'Intangible Asset'
 - (c) Should be recognised as expense in Profit and Loss annually.
 - (d) No accounting is required
- (iv) During the implementation period, how the expenditure incurred will be accounted for:
 - (a) It will be expensed in profit and loss as and when incurred
 - (b) It will be recognised as an asset 'Intangible asset under development'
 - (c) It will only be disclosed in notes to accounts and will be recognised when complete
 - (d) It will be recognised as an item of Property, Plant and Equipment

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

4. Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery:
 - (a) ₹ 1.5 lakh
 - (b) ₹ 3 Lakh
 - (c) Nil
 - (d) ₹ 5 Lakh

(2 Marks)
5. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned using following cost formula
 - (a) By specific identification of their individual costs
 - (b) First-in, First-out (FIFO) Method
 - (c) Weighted average cost formula
 - (d) The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

(2 Marks)
6. Securities held as stock-in-trade held by an entity are:
 - (a) Investments
 - (b) Not Investments
 - (c) May or may not be Investments
 - (d) Not an asset for entity

(2 Marks)

PART II – Descriptive Questions (70 Marks)

Question No. 1 is compulsory

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.

1. (a) A Ltd. purchased on 1st April, 2023 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 203 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2023 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2023, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2023 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2023. **(10 Marks)**
- (b) A company incorporated in June 2023, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16. **(4 Marks)**
2. You are required to prepare a Balance Sheet as at 31st March 2024, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-
 - (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
 - (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000. **(14 Marks)**
3. (a) You are required to give the necessary journal entry at the inception of lease to record the asset taken on finance lease in books of lessee from the following information:

Lease period = 5 years;

Annual lease rents = ₹ 50,000 at the end of each year.

Guaranteed residual value = ₹ 25,000

Fair Value at the inception (beginning) of lease = ₹ 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700, .622 and .552 respectively). **(7 Marks)**

(b) Ram Ltd. purchased machinery for ₹ 80 lakhs (useful life 4 years and residual value ₹ 8 lakhs). Government grant received was ₹ 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c. **(7 Marks)**
4. Robert Ltd. and Diamond Ltd. give the following information as at 31.03.2024:

	Robert Ltd. (₹ in lakhs)	Diamond Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500

Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Robert Ltd.'s acceptances.

On 1st April 2024, Robert Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Robert Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Robert Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Robert Ltd.	Diamond Ltd.
	(₹ in lakhs)	
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	<u>180</u>	<u>-</u>
	<u>1,800</u>	<u>694.5</u>
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	<u>-</u>	<u>120</u>
	<u>3,180</u>	<u>1,650</u>

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Robert Ltd.

You are required to:

Prepare Robert Ltd.'s Balance Sheet immediately after the merger.

(14 Marks)

5. H Ltd. and its subsidiary S Ltd. Give the following information as on 31st March, 2024:

	H Ltd. (₹)	S Ltd. (₹)
Share Capital		
Equity Share Capital (fully paid up shares of ₹ 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000

Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
<u>Property, Plant and Equipment</u>		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2023. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April, 2023 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include ₹ 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. With its subsidiary as at 31st March, 2024. **(14 Marks)**

6. "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards **(4 Marks)**

Or

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2024.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014: **(₹)**

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%. **(4 Marks)**

- (b) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2024:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade Receivables	3,50,000	Payment of overheads	15,000
		Machinery acquired	4,00,000
		Debentures redeemed	50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	<u>15,000</u>
	<u>10,00,000</u>		<u>10,00,000</u>

Prepare Cash Flow Statement for the year ended 31st March, 2024 in accordance with AS 3. **(5 Marks)**

- (c) M/s Shrikant operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2024:

Stock at the outlet 1.4.2023	₹ 45,000
Goods invoiced to the outlet during the year	₹ 4,86,000
Gross profit made by the outlet	₹ 90,000
Goods lost by fire	?
Expenses of the outlet for the year	₹ 30,000
Stock at the outlet 31.3.2024	₹ 54,000

You are required to prepare the following accounts in the books of M/s Shrikant for the year ended 31.3.2024: [a] Outlet Stock Account [b] Outlet Profit & Loss Account [c] Stock Reserve Account **(5 Marks)**